Volume 1 No. 1 / 2003

National Accounting Research Journal

FACULTY OF ACCOUNTANCY
UNIVERSITI TEKNOLOGI MARA

ISSN 1675-753X

Contents

Rashidah Abdul Rahman
BRC
Universiti Teknologi MARA, Shah Alam

Rohila Awang
Kolej Legenda
Mantin, Negeri Sembilan

Abstract

The main objective of this study is to determine the value measurement used by *zakat* collection centres, particularly Pusat *Zakat* Selangor (PZS), in measuring business *zakat* among companies owned by Muslims in Selangor territory. The study found that PZS assessed *zakat* from companies financial statements based on historical cost, and not current value as hypothesised by previous researches. The continuous use of historical cost may lead to negative wealth transfer for *zakat* beneficiaries particularly in time of rising prices. Even though certain adjustments are made to the assessment, however the purpose of such adjustment is merely to reflect the Islamic philosophy of the implementation of *halal* and *haram* as well as different views of Islamic Accounting and Conventional Accounting in recognising income and expenses.

1.0 Introduction

In Islam, the primary purpose of a company formation is to promote justice which refers to the accountability aspect on the part of shareholders as well as users of accounting information. In the context of financial reporting in Islam, the accountant's accountability focus is enhanced to include a wider audience, namely the public (Sulaiman, 2000). This involves the equitable and fair distribution of wealth in Islam.

The implementation of the theoretical percepts by the Islamic economics movement lately includes the setting up of economic institutions, such as Islamic banks, Insurance companies ('Takaful') and *zakat* collection centres. Specifically, in *zakat* context, the 'Pusat *Zakat*' (PZ) is a commercialised organization or unit of the respective State Religious Authorities set up in Malaysia that is responsible to organize the collection of *zakat* in each state. Even though the centre employs modern methods of collection, has efficient computer information systems and publicity and campaigns to efficiently collect *zakat* in the areas covered, there is still room for improvement. For instance there is the dismal information on *zakat* as well as the minimal and unsophisticated advice available for *zakat* payers (Mohamed Ibrahim, 2000).

In addition, *Zakat* needs to be based on current value, as otherwise this would lead to an 'appropriation' of wealth from the poor to the rich in times of rising prices and values. Fairness of values (to the extent possible) is required in Islamic accounting to ensure that no group is deprived of its rightful share of wealth. (Mohamed Ibrahim, 2000). Since the Islamic principle considers the 'net worth' of current assets for the calculation of *zakat*, the basis of measurement of the asset base will have an impact on *zakat* assessment.

This study is an extension of the research done by Sulaiman (1998) who found that *zakat* officers perceived Current Value Balance Sheet (CVBS) to be useful in calculating *zakat* liability. Current values in CVBS relates to 'justice and equity', which is emphasized by Islam with regard to the payment of *zakat*. Thus, the main objective of this study is to determine the value measurement used by 'Pusat *Zakat* Selangor' in assessing business *zakat*. The study aims to contribute to the literature in understanding the value measurement used in *zakat* assessment, particularly within the Selangor territory. Measurement of *zakat* needs a thorough attention since it reflects the philosophy of the Islamic system, which subsequently acts as a yardstick for the system.

The remainder of the paper is organized as follows: Section 2 reviews the related literature particularly on the significance of *zakat*. Section 3 presents the methodology, followed by the findings in Section 4, and Section 5 provides the conclusions and recommendations.

2.0 Significance Of *Zakat*

Zakat is the third of the five basic pillars of Islamic faith, relating to wealth and welfare of the society. According to Clarke et al., (1996) *zakat* is essential as a social welfare levy imposed to Islamic society's wealthier members and more prosperous businesses and thus helps to close the gap between the poor and the rich. This pronouncement of compulsory act is closely related to the five prayers and is reflected in the Al-Quran. Prayer is an act of worship expressing a Muslim's gratitude for the bodily blessings bestowed by God, while *zakat* is an act of worship expressing a Muslim's gratitude for God's financial gifts. Linguistically, *zakat* means growth, increase and purification, i.e. the wealth of the one who pays *zakat* is purified by it. This is attested by the words of the Al-Mighty, "Take sadaqa from their wealth to purify and cleanse them" (Holly Quran 99:103) and " But anything you give as *zakat*, seeking the Face of Allah - whoever does that will get back twice as much" (Holly Quran 30:40)

Zakat applies to both individuals and businesses. Thus, Muslim owners of trading enterprises (whether sole proprietors, partnerships or companies) are obligated to pay *zakat* not only on their personal wealth but also on their "articles of trade" (Holy Quran 2:267), that is, anything obtained for the purpose of trade for profit (Al-Qardawi, 1999). However, such obligations should not contradict with the Islamic philosophy, for instance, not to engage in a business which is forbidden in Islam.

There are several conditions that make *zakat* compulsory to Muslim business owners. Basically *zakat* is obligatory on the Muslim owners only. In assessing *zakat*, the assessment is made on the business as a whole and the amount to be paid for *zakat* is assessed on the Muslims' share of the business. The business must have full ownership of current assets, i.e. have full rights over the assets. The criteria for full ownership is that the business has full physical control over the usage of the assets and that the assets are free of any encumbrances. Thus, assets held for collateral is excluded from *zakat* (Clarke et al., 1996). However, assets which are being used or consumed in business (for instance office fittings, supplies or delivery vehicles) and not intended for trade are exempted from *zakat*.

The next consideration is nisab or threshold, the minimum *zakat*able amount that is based on the market value of gold in the market (approximately 85 grams of gold amounting to RM3,500). As in the case of *zakat* on money wealth, the rate for business *zakat* is at a specified rate of 2.5%, based on the hadith from the Prophet (pbuh). Lastly, when *haul* is completed; whereby the business has gone through a period of one Hijraa year (1 Hijraa year is equivalent to 354.5 days), which refers to the financial year of a company. Some advocates use the month of Ramadhan (fasting month) as the closing of the financial year. However, companies in Malaysia still end their accounting period based on the solar year (365 days) as practised by ex-colonised countries.

3.0 Research Design

Instead of the positive accounting research that adopts a hypothetical-deductive method, this study adopts the interpretive approach to address the lack of understanding on accounting practices in the religious sector. Specifically, this study seeks to understand the ways in which accounting measurement is used in computing *zakat* at Pusat *Zakat* Selangor (PZS). This approach is predicated on the belief that a sound appreciation of the potential impact of accounting measurement in *zakat* computation can only be developed by reference to the particular setting to which it is embedded (Abdul Rahman, 1998).

The research design of this study is divided into two distinct phases. Phase 1 involves a structured interview with officers from the business unit of the *zakat* collection centre. Whereas, phase 2 involves the actual case study itself. The internal publication of PZS related to the study is used for data collection. Procedural documents and companies' financial statements are also used to obtain data for this study. The procedures in *zakat* collection are observed through the implementation of 'Jejak Sahabat' programme at PZS where the *zakat* officer calculates the *zakat* liability on the spot at the client's premise. The official records are also examined to determine the measurement used by PZS for *zakat* assessment on companies. The data collected is analysed upon the grounded theory as discussed in the previous section.

This study primarily focuses on *zakat* on monetary wealth specifically on business that involves Muslim companies in Selangor. There are more than 1,100 Muslim companies identified by PZS in year 2001. JAKIM defines a Muslim company as one which has at least one Muslim shareholder. Therefore, the companies are obliged to pay business *zakat* to PZS proportionate to their Muslim shareholders.

3.1 The Case Study Company

Pusat *Zakat* Selangor (PZS), the organization chosen for an in-depth case study is a subsidiary of Majlis Agama Islam Selangor (MAIS). One of the reasons for selecting this organization is to investigate the approaches taken by them in measuring and evaluating *zakat* for companies in the Selangor territory. PZS was established on 15 February 1994 with a paid up capital of RM500,000. The main objective of its formation is to collect *zakat* and also to improve the current management of *zakat* collection system in Selangor. Basically, the main functions of PZS are as follow;

i) Strengthen the management of *zakat*
ii) Smoothen the administration, collection and distribution of *zakat*.
iii) Reshape the new image of *zakat* institution to be more progressive and proactive.
iv) To be a 'role model' in *zakat* institution within the region
v) To rebuild the society's confidence towards the *zakat* institution.

PZS has been organising various steps and strategies to enhance the public awareness about this religious obligation. These include campaign and exhibition, seminars and workshops, launching the month of *zakat* in Selangor, as well as organising various activities such as 'jejak poket', mosque operation, 'jejak sahabat' operation as well as consultation and appointment with *zakat* payers.

4.0 Findings

Since this study focuses on the value measurement used by PZS in calculating *zakat* among companies owned by Muslim, it is necessary to know how the amount for *zakat* liability is calcualted by PZS officers. Prior to year 2000, PZS adopted the Profit and Loss approach (P&L approach), similar to that implemented by 'Pusat Pungutan *Zakat*' (PPZ) in Wilayah Persekutuan. In assessing the amount of *zakat* to be paid, the P&L approach focuses on the profit of a company. In actual principle, profits of a company cannot be a used as a yardstick in *zakat* calculation. This method is criticized by the new administration staff who are versatile in the area of accounting and Sharia'. Their arguments are based on the 'hadith'or 'ijtihad[1]' made during the famous caliphates. Similarly, Al-Qadawi (1999) and Mohamed Ibrahim (2000) argued that working capital or the net worth of current assets instead of net profit is subjected to *zakat* as it truly reflects the financial position of the business. The assessment further needs to be valued at current value (selling price value or exit value in the time of our Prophet (pbuh)).

Subsequently new approaches were introduced at PZS to calculate *zakat* namely, Growth Model and Working Capital Model. These models are basically a modification or refinement from the former approach, which does not adequately meet current challenges and globalization in the business world. Most *zakat* collection centres in Malaysia have adopted the new approach, including those from Terengganu, Kelantan, Johor, Negeri Sembilan, Melaka, Pahang and Pulau Pinang.

The Growth Model (Urfiyyah) examines the owner's equity and the sources of financial resources. Adjustments (if any) are made to the equity and sources of financial resources to cater the Islamic philosophy of *halal* and *haram* as well as the different views on conventional and Islamic values in recognizing income and expenses. The Working Capital Model (Syar'iyyah), on the other hand, is defined as current liabilities deducted from current assets, and adjustments shall only be applicable to certain related items. Both models provide similar results since the base used is the net worth of current asset.

---

[1]After the death of prophet and khulafaa', Islamic jurisdiction was led by jurists; those who are expert in Islamic law. They made a conference among them and concluded an issue based on the Islamic principle that did not contradict with Islamic philosophy.

The summary of *zakat* assessment at PZS using both models and the adjustments are presented in Figure 1.

FIGURE 1
(SUMMARY OF BUSINESS *ZAKAT* ASSESSMENT AND ITS ADJUSTMENTS USING BOTH MODELS)
XYZ COMPANY SDN BHD
FOR THE YEAR ENDED 31ST DECEMBER 2001

Growth Model (Urfiyyah)	RM	**Working Capital (Syarr'iyyah)**	RM
Capital/ Owners Equity	Xxxxxx	Current Asset	Xxxxxx
Add: long term liabilities	Xxxxxx	Less: Current Liabilities	Xxxxxx
Less: Fixed asset	Xxxxxx		
Less: Non Current Assets	Xxxxxx (A)		Xxxxxx (A)

NET WORTH OF CURRENT ASSET OBTAINED IS xxxxxxxx (A)
ADJUSTMENTS, either (plus or minus) based on the arguments in the notes obtained from the companies financial statements.

Current Asset (RM)	**Explanation**
W-I-P	Work in progress should be deducted from net worth of current assets since only finished goods are **recognized as productive**
RAW MATERIAL	Raw materials should also be deducted since only finished goods are **recognized as productive**
FINISHED GOODS	Finished goods Inventories are already **recognized as productive**
FIXED DEPOSITS WITH A LICENSED BANK, COLLATERALISED	Encumbered Fixed deposits with a licensed bank is deducted since it **is not recognized as having full ownership**. Normal fixed deposits is *zakat*able.
INTEREST ON FIXED DEPOSIT	Interest on fixed deposit (either received or accrued) is deducted since it **is non *halal* source of income**
CHARITY KIND OF FUND	Fund formed for charity purposes, i.e for education, 'khairat' which is contained in asset should be **excluded from *zakat*.**
DIVIDEND	Dividend which was paid by an invested company will be deducted from the net worth of current asset (if the dividend has been assessed earlier for *zakat* before being distributed) because *zakat* is not charged twice in the same haul (period).
DONATION	Donation made by a company at the end of the accounting period (haul) need to be added back (assessed for *zakat*) since PZS argued that donation will not affect the company's liquidity unless the donation is taken from charity fund. Thus, they should be added to the Net Worth of Current Assets to access for *zakat*.
(xxxxxx) **(B)**	

Current liabilities (RM)	**Explanation**
HIRE PURCHASE	It is recognized as source of business, recognize as full ownership thus it is not an allowable deduction and needs to be added back.
BANK BORROWINGS	It is source of fund and recognize as full ownership thus it needs to be added back
DIVIDEND PAYABLE	Dividend payable is not a business operation. It is actually a business profit that should be assessed for *zakat* before it is distributed to shareholders thus need to be added back to the net worth of current asset.
TRADE LOANS	Imam Syafii argued that a loan tantamounts to having full ownership. *Zakat* is on assets whereas a loan is a liability. Only trade debtors (payables) are allowed to be deducted. Thus a loan needs to be classified as a source and be added back.
Xxxxxx(C)	

Total amount due for *zakat* =(A) + (B)+ (C) = Xxxxxx (D)

Amount subject to *zakat* and *nisab*	Xxxxxx
Equity - Muslim , say	75%
***Zakat* liability (2.5% x D x 75%)**	**RM xxxxx**

4.1 Actual Assessment

Based on the interview with the *zakat* officers and observations on the procedures of *zakat* calculation at PZS, it can be said that the figures for *zakat* calculation are taken directly from the company's balance sheet that was prepared based on historical cost accounting. Adjustments were made to certain items in the balance sheet to reflect Islamic philosophy in *zakat* calculation. For example, overdraft is defined as a liability in conventional accounting. However in calculating the '*zakat*able' figures, the overdraft is considered as a source of funds used to the business to generate profits and revenue for the organization.

The illustration in Figure 2 involves an actual data of a company, XYZ Sdn Bhd taken from the Pusat *Zakat* Selangor (due to confidentiality, the name of the company is not disclosed). The Balance Sheet and notes to the accounts of XYZ Sdn Bhd are shown in Appendix 1 and 2. Figure 2 provides detail illustrations of the *zakat* to be paid by XYZ Sdn Bhd. As shown in Figure 2, both models (Working Capital and Growth Model) used in calculating the net worth of current assets provide similar results, amounting to RM4,712,385.

Figure 2

XYZ COMPANY SDN BHD
FOR THE YEAR ENDED 31ST DECEMBER 2001
ASSESSMENT OF BUSINESS *ZAKAT* USING BOTH MODEL

Growth Model (Urfiyyah)	RM	**Working Capital (Syarr'iyyah)**	RM
Capital/ Owners Equity Add: long term liabilities Less: Fixed asset Less: Non Current Assets	7,163,134 1,272,168 3,694,917 28,000	Current Asset Less: Current Liabilities	13,346,235 8,633,850
	4,712,385 (A)		4,712,385 **(A)**

NET WORTH OF CURRENT ASSET OBTAINED IS **RM4,712,385**

ADJUSTMENTS, either (plus or minus) based on the arguments in notes.

Current Asset (RM)	**Notes to adjustments**
(7,320 276)	Inventories, as work in progress; only finished goods is recognized as productive
(3,185)	Inventories-raw materials; only finished goods is recognized as productive
2,928,110	Inventories-finished goods recognized as productive
(937,802)	Fixed deposits with a licensed bank-not recognized as full ownership
(63,371)	Interest on fixed deposit interest-non halal source of Income
(5,396,524) **(B)**	

Current liabilities (RM)	**Notes to adjustments**
70,943	Hire purchase-source of business, recognized as full ownership
951,107	Bank borrowing-source of fund, recognized as full ownership
3,600,000	Dividend payable-not for business operation but recognized as profit
4,622,050 (C)	

Total amount due for *zakat* =(A) + (B)+ (C) = 3,937,911

Amount due for *zakat*	RM 3,937,911
Equity Muslim	100%
***Zakat* liability** (2.5% X 3937911)	**RM 98,448**

The net asset figure of RM4,712,385 in Figure 2 is subjected to the following adjustments as illustrated below:

- **Inventory**
  There is a separate distinction between Finished Goods, Work In Progress (W-I-P) and raw material. According to Islamic principles, only Finished Goods are recognized as productive; that is able to generate profit or revenue to the business. Therefore, as shown in Figure 2, Raw Materials and Work-In-Progress amounting to RM3,185 and RM7,320,276 respectively (Note 2, Appendix 2) are excluded from the calculation. Based on a fax received by PZS from XYZ Company (Note 2, Appendix 2), the Inventories in the Balance Sheet excludes Finished Goods amounting to RM2,928,110, which it is added back to Current Assets.

- **Fixed deposits with a licensed bank**
  Depositors and not financial institutions are deemed to have full ownership of deposits in financial institutions, such as current accounts, saving accounts and time deposits. It is so as depositors can utilize the deposits to generate profits or revenue. Only time deposits used as collaterals for other financial facilities will result in the customer loosing full ownership status. Islamic guidelines do not recognize time deposits with encumbrances as having full ownership. Thus, fixed deposits with a licensed bank amounting to RM937,802 (Balance Sheet, Appendix 1) that was used as a collateral is further deducted from the net worth of current assets.

- **Interest on fixed deposits.**
  PZS argues that interest on fixed deposits is a non *halal* source of income as interest is a form of *riba* and that Islam prohibits *riba*. Mohamed Ibrahim (2000) argued that the illegality part of interest is the predetermined fixed rate on capital (i.e. the return on money without sharing the corresponding risk of the borrower). This rule has made conventional loan instruments offered by interest-based banking, which is an important modern economic institution, illegal in Islamic society.

  Since only income that is recognized as *halal* is included in the calculation, therefore interest on fixed deposit amounted to RM63,371 (Note 9, Appendix 2) is deducted from the net worth of current assets.

- **Hire Purchase**
  Hire Purchase is considered as a source of operation that generates income or revenue to the company. Further, the source is recognized as having full ownership since the owner can easily use the car as long as the installment is paid. Hire purchase incentive is normally given to directors or company's

executives. In a way the executives utilize the vehicles for business benefits that indirectly generate revenue to the business. The fixed asset on hire purchase is not *zakat*able and the corresponding liability is deemed a source of fund to the business. Since conventional accounting reclassifies the current liability portion to current liabilities, allowing this item to be deducted will tantamount to a double deduction effect. Thus, the current liability portion of the hire purchase amounting to RM70,943 (Note 4, Appendix 2) is added back to the net worth of current assets.

- **Bank Borrowings**
  Bank borrowing is a liability to a company. However for *zakat* purposes, PZS recognises bank borrowing as a source of fund to the business since it is fully 'owned' by the company. Therefore, the amount of RM951,107 (Note 5, Appendix 2) is added back to the net worth of current assets.

- **Dividends**
  Dividend Payable is not allowed for deduction. It is due to the argument made by PZS that dividends are distributions of profits derived from business operations. Thus it should be assessed for *zakat* before it is distributed to the shareholders. Therefore, the amount of RM3,600,000 (Balance Sheet, Appendix 1) is added back. On the other hand, any dividends received by the company and which was assessed for *zakat*, is not subject to *zakat* payment.

  Thus, the amount subjected to *zakat* (based on Figure 2) is RM3,937,911. Since, in this example, Muslims own 100% of the company, the amount of *zakat* liability is RM98,448 (2.5% rate of RM3,937,911).

4.2 Discussions

In summary, it can be seen that PZS assesses *zakat* using a company's financial statements which results in several inconsistencies between *zakat* rules and the Generally Accepted Accounting Principles (GAAP) which conforms to Anglo-American accounting conventions. Such inconsistencies, which have not been taken into consideration by PZS in determining *zakat* liability, arise at least in two areas: in relation to the valuation of inventories and the problem of valuation of receivables.

Firstly, the physical asset valuation basis used to calculate wealth in conventional financial reporting is one of the critical *zakat*-related tasks. The method used by Western countries which requires merchandise (inventory) in balance sheets to be recorded either at "cost" or "replacement price" are inappropriate if the resulting valuation figures are to be used directly as a basis for determining the *zakat* liability. In practice, the lower of cost or market rule invariably results in "cost" being the dominant value adopted. This is further supported in the above example on assessing *zakat* at PZS (note 2 in Appendix 2) that the inventory is based on the lower of cost or net realizable value.

However, a majority of jurists[2] appear to conclude that the physical asset valuation should be based on current prices prevailing at the time *zakat* falls due to reflect the true and fair presentation of *zakat* especially in the event of rising prices (Al-Qardawi, 1999; Mohamed Ibrahim, 2000). Current value during the prophet's time is "value-in-exchange" which is synonymously the selling price (exit value) from the vendor and entry price for the purchaser. Financial Accounting Standards on the valuation of assets subjected to *zakat* (FAS 9, 1998) issued by the Accounting and Auditing Organisation of Islamic Financial Institutions recommended that the physical asset valuation should be based on the selling price to include the historical cost and any holding gains (losses). The age, usefulness and depletion of the asset need to be taken into consideration when the assets are valued for *zakat*. In this respect, the preferred *zakat* basis of valuation parallels the concept of exit value or current cash equivalent or net realizable value, which has caused so much debate in the context of Western general purpose financial statements (Clarke et al., 1996).

Secondly, the verification of trade debtor (receivables) is also critically viewed. Trade receivables is based on net receivables, after considering the collectibility of such receivables. High quality receivables are as good as cash or deposits, and thus most Islamic jurists (including Shafiies) widely agree that *zakat* is payable only on those debtors' obligation "expected" to be realized (Clarke et al., 1996; Sanusi, 2000). The likelihood of realization is determined after considering factors such as the general inability of debtors to pay, specific matters of insolvency and any dispute regarding amounts owed (Clarke et al., 1996). Further, based on Islamic philosophy that do not include ambigious and uncertain items, some scholars take the view that only bad debts are taken into consideration whereas the doubtful debt is not recognized in *zakat* computations. However, in conventional accounting, doubtful debts are provided for in the financial statements.

As shown in the above example on the assessment of *zakat* at PZS (Balance Sheet in Appendix 1), there is no separate distinction between debtor's obligation which is expected to be realized and not realized. No notes to the accounts were provided as regards to provision for doubtful debts. The total Trade Receivables (debtors) of RM3,989, 061 shown in the company's balance sheet is taken directly assuming that the amount shown is net of provisions.

In addition, "Other receivables" of RM316,481 in the Balance Sheet (Appendix 1) normally includes items that are not related to normal operating activities.

---

[2] Those who are expert in fiqh (Islamic law). There are 4 jurists in Islam namely Shafiie, Hambali, Maliki and Hanafi.

Some examples are sundry deposits, prepaid expenses, advances or loans to other parties, and deposits or part payment on asset acquisitions. These items are not deemed as the company having full ownership or are considered as non-trade assets and thus, should not be taken into consideration in assessing *zakat*.

From the above factors, it indicates that conventional accounting cannot satisfy the financial information needs of Muslim users in determining *zakat* liability.

5.0 Conclusion

Zakat assessment and distribution form an important part of wealth distribution information (Mohd. Ibrahim, 2000). Thus, the main aim of this study is to determine the value measurement used by PZS in calculating *zakat* on business organisations. Subsequently, a fair share of the wealth from businesses to be distributed to the poor can be determined. As discussed in this paper, *zakat*able assets valued on current cost are the base on which *zakat* is assessed for business organizations, as quoted from a hadith which means "Value at current value (market price) and then pay *zakat* (on it)". This has been further refined to mean cash equivalent or net realizable values (Clarke et al., 1996, Al-Qardawi, 1999, and FAS 9).

However, the study found that PZS assessed *zakat* from companies' financial statements that are prepared based on historical cost convention. Even though certain adjustments are made to the assessment, however the purpose of such adjustment is merely to reflect the Islamic philosophy of the implementation of full ownership of current assets, the non recognition of non-*halal* income, and the occurrence of double charge for *zakat*.

As such, the current conventional accounting does not comply with Islamic values particularly in the computation of *zakat* as it does not include current valuation in their financial reporting. For instance, the valuation of stocks at the lower of cost and net realisable value and gross receivables may not be acceptable from an Islamic perspective because it leads to lower valuation of '*zakat*able' assets and thus *zakat* being undervalued. Thus, fairness and equitability, which are promoted by Islam may be impaired. Instead, a fair *zakat* base is the most important objective of Islamic accounting (Gambling and Karim 1991; Baydoun and Willet, 1994).

Similar to the suggestions made by Abdul Rahman (2002), the study also recommends the need in Malaysia for an accounting standard on *zakat* to narrow the differences in the methods used in measuring *zakat*, basis used in valuing assets subjected to *zakat*, and the method of presentation of financial information in financial statements. On this basis, accounting standard setters in Malaysia may require companies to include Current Value Balance Sheet (CVBS) and Value Added Statement (VAS) in their financial reporting as suggested by Baydoun and Willett (2000) and Abdul Rahman and Omar (2001). It is also recommended that further studies may need to examine the willingness of Muslim companies in Malaysia to include CVBS for *zakat* purposes. It is important to know whether the proposal by Baydoun and Willet (2000) is practical and has cost-benefits. Subsequently, *zakat* officers can enhance the understanding among entrepreneurs on Islamic accounting particularly in the use of current cost for *zakat* purposes through talks or seminars on Islamic accounting.

Based on the interviews with the officers at PZS, the study also found that *Zakat* payers of Malaysian companies are ignorant in paying *zakat*. Lack of understanding, insufficient knowledge as well as diminishing Islamic values as a result of colonisation, has resulted in Muslim entrepreneurs being not overly concerned with the religious obligation of paying *zakat*. They normally request for benefits that they should get, which can be visualised in a form of money or other benefits as a result of *zakat* payment. They feel that they are burdened with two charges: income tax and *zakat* on business wealth as the Malaysian government has not provided any rebate for income tax for those who pay *zakat* on business wealth. But by the grace of God, it is worthy to note that this study also finds that the number of entrepreneurs who voluntarily pay business *zakat*, for the sake of the Al-Mighty, is on the rise.

It is hoped that this study may enhance the awareness among *zakat* officers, entrepreneurs and related parties concerning the essentials of *zakat* and the valuation issues according to the Sharia' particularly with the increasing complexities in the business world today.

References

Accounting and Auditing Organisation of Islamic Financial Institutions (1998), *Financial Accounting Standard* 9.

Abd. Halim, UAH (2000); "Institusi *Zakat* Lahirkan Masyarakat Seimbang", VISI- *majalah Kefahaman Islam*, Oktober-Disember, pg 3-4

Abdul Rahman, A.Rahim (1998), "An Interpretive Inquiry into Accounting Practices in Islamic Organizations in Malaysia", PHD thesis, International Islamic University, September.

Abdul Rahman, A.Rahim (2002), "*Zakat* Accounting, Creating Business Wealth", *Akauntan Nasional*, Vol. 15 No. 8, Journal of the Malaysian Insitute of Accountants, September.

Abdul Rahman, Rashidah and Omar, Norliza (2001); "Perceptions of Accounting Academicians in Malaysia on the Usefulness of Islamic Accounting Reports", a paper presented at Workshop in Islamic Economics, Universiti Kebangsaan Malaysia, Bangi, Selangor

Atiyah, M. Kamal (1984), *Muhasabah al-Syarikat wal Masarif fil Nizamal Islami* (Bank and Company Accounting according to Islamic system), Alexandria, Egypt: Dar al Jami'at al Misriyah.

Al-Qardawi, Yusuf (1999), Fiqh Az-*Zakat*: A Comparative Study (translated), London, Dar Al-Taqwa.

Baydoun, N. and Willett, R. (2000), "Islamic Corporate Reports", *Abacus*, Vol. 36, No. 1, pp 71-89.

Clarke, et al. (1996), "Physical Asset Valuation and *Zakat*", *International Accounting*, Vol. 9, pp.195-208.

Elliot B. and Elliot, J. (2000) *Financial Accounting and Reporting*, Fifth Edition, Prentice Hall, p.p 43-48.

Haniffa, R. and Hudaib, M. (2001), "A Conceptual Framework for Islamic Accounting: The Shari'a Paradigm", The Islamic Perspective International Conference, New Zealand, February.

Hamidullah, M. (2001), "Economic System of Islam- An Introduction", *http://www.iiu.edu.my/deed/articles/econ_islam.html*, pp. 7-10.

Jabatan Kemajuan Islam Malaysia (2001) *Panduan Zakat di Malaysia*, pp. 19-65.

Jelani, S. (1999), "Masalah Duplikasi Antara *Zakat* Pendapatan di Malaysia", Jabatan Syariah dan Ekonomi, Universiti Malaya.

Mohamad Ibrahim, S. H. (2000), *The Need for Islamic Accounting*, International Islamic University, April, pp 106-277.

Mohamed Ibrahim, S. H. (2000); "A Review of Income and Value Measurement Concepts in Conventional Accounting Theory and Their Relevance to Islamic Accounting", pg 2. *http://islamic-finance.net/Islamic-accounting/acctg3.html*

Mohamed Ibrahim, S. H. (2001); "From Conventional Accounting to Islamic Accounting, Review of the Development Western Accounting Theory and Its Implications for and Differences in the Development of Islamic Accounting", pp 21-27, *http://islamic-finance.net/islamic-accounting/acctg1.html*

Mohd Taha R. (2002); "80 Peratus Syarikat Milik Muslim Tidak Bayar *Zakat*", *Berita Harian*; 4th May.

R.Taheri, Mohammad (2001), "The Basic Principles of Islamic Economy and Their Effects on Accounting Standard-Setting", *http://www.islamic-finance.net/islamic-accounting/acctg6.html*

Rahman, S. (2001), "Islamic Accounting Standards", *http://www.islamic-finance.net/islamic-accounting/acctg1.html*

Sanusi, S.L. (2000), "Instutional Framework of *Zakat*: Dimension and Implications, *http://www.gamji.com/sanusi18.htm.*

Sulaiman, M. (1998),"The Usefulness of the Current Value Balance Sheet and the Value Added Statement to Muslims: Some Evidence from Malaysia", *Accounting, Commerce & Finance: The Islamic Perspective*. Vol 2, No 2, December 1998.

Sulaiman, M. (2000); "Corporate Reporting from an Islamic Perspective", *Akauntan Nasional*, Jan-Feb , pg 6-11

Zuhayli, Wahbah (1994), *Fiqh dan Perundangan Islam, Jilid II (Terjemahan)*, Dewan Bahasa & Pustaka, Malaysia.

APPENDIX 1

XYZ COMPANY SDN. BHD. (Incorporated in Malaysia)

BALANCE SHEET AS AT 31ST DECEMBER 2001

	NOTE	RM
Property, Plant and Equipment		3,694,917
Investment	1	28,000
CURRENT ASSETS		

APPENDIX 2
ADDITIONAL NOTES FOR BUSINESS *ZAKAT* ASSESSMENT

1.	**INVESTMENT**	- golf club membership, at cost	RM28,000
2.	**INVENTORIES**	- work in progress	RM7,320,276
		- raw materials	RM 3,185
			RM7,323,461

Additional notes to stocks:
Work In Progress stock valued at RM7,320,276 and in addition, inventories exclude finished goods valued at RM2,928,110.80.

3. **DEPOSITS WITH LICENSED BANK**

The company has pledged fixed deposits with a licensed bank to secure bank guarantee facilities granted by the bank, (it disclosed in Note 8 to the Financial Statements). Note 8 is available in the annual report of XYZ company.

4. **HIRE PURCHASE CREDITORS**

	RM
Amount due under hire purchase	478,884
Less : Unexpired interest (100,886)	
Principal amount outstanding	377,998
Amount repayable within one year (included under current liabilities)	(70,943)
Amount repayable after one year (included under long term liabilities)	307,055
Amount repayable after one year - Between 2 to 5 years - later than 5 years	 294,198 12,857
	307,055

5. BANK BORROWINGS

	RM
Bankers' acceptances (unsecured)	807,000
Term loan	144,107
	951,107

The term loan is secured by way of first legal charge over the land and building of the company and is jointly and severally guaranteed by the directors of the company.

6. TERM LOAN

Term loan facility of RM1.2 million repayable by 84 equal 25 monthly installments commencing on 30th November 2000.	1,044,220
LESS: Amount repayable within 12 months (included under bank borrowings)	(144,107)
	900,113

7. DEFERRED TAXATION

The movement in deferred taxation account is as follows:

	2001 RM	2000 RM
At beginning of year	48,000	-
Transfer from income statement (NOTE 6 of Financial Statement)	17,000	48,000
At the end of year	65,000	48000

8. PROFIT BEFORE TAXATION

This is stated after charging;	RM
Auditors' remuneration	10,000
Bad debts written off	2,530
Depreciation	364,792
Directors' fee	440,000
Directors' remuneration	353,243
Factory rental	-
Interest expenses	23
Interest on bank overdraft	-
Interest on hire purchase	3,060
Interest on loan stock	91,601
Loss on property, plant and equipment written off	2,015

And crediting;

Dividend received	3,635
Gain on foreign exchange	-
Interest on fixed deposits	**63, 371**